

DECISION

**2017 NSUARB 35
M07812**

NOVA SCOTIA UTILITY AND REVIEW BOARD

IN THE MATTER OF THE INSURANCE ACT



- and -

IN THE MATTER OF AN APPLICATION by IAO ACTUARIAL CONSULTING SERVICES INC. for approval to modify its rates and risk-classification system for private passenger vehicles

BEFORE: Murray E. Doehler, CPA, CA, P.Eng., Member

APPLICANT: IAO ACTUARIAL CONSULTING SERVICES INC.

FINAL SUBMISSIONS: February 9, 2017

DECISION DATE: March 14, 2017

DECISION: Application is approved.

I INTRODUCTION

[1] IAO Actuarial Consulting Services Inc. (“IAO” or “Company”) filed supporting documents and materials (“Application”) with the Nova Scotia Utility and Review Board (“Board”) for approval to modify its rates and risk-classification system for private passenger vehicles (“PPV”). The Application, dated December 21, 2016, was filed electronically on December 23, 2016, and the original documents were received on December 29, 2016.

[2] The Application did not specifically reference the use of the 2017 Canadian Loss Experience Automobile Rating (“CLEAR”) tables. IAO confirmed it had reflected the 2017 CLEAR tables in its Application and provided corrected profiles on February 2, 2017.

[3] As a result of a review by Board staff, a staff report dated February 9, 2017 (“Staff Report”), was prepared and provided to the Company for review on the same date. The Board received IAO’s response on February 9, 2017, indicating that it had reviewed the Staff Report and had no further comment.

[4] The Board did not deem it necessary to hold an oral hearing on the Application.

II ISSUE

[5] The issue in this Application is whether the proposed rates and changes to the risk-classification system are just and reasonable and in compliance with the *Insurance Act* (“Act”) and its *Regulations*.

III ANALYSIS

[6] The Company sought approval to change its rates and its risk-classification system for PPV. The Application was made in accordance with the Board's *Rate Filing Requirements for Automobile Insurance – Section 155G Prior Approval* (“*Rate Filing Requirements*”). The Company's mandatory filing date was December 31, 2016. The Board establishes December 31, 2017, as the next mandatory filing date for these vehicles.

[7] IAO develops rates for various classes of vehicles which it makes available to insurers who subscribe to its services. The subscribing companies may apply to the Board to adopt the IAO rates; those who do so are, generally, companies which insure small numbers of vehicles in the Province and wish to avoid the expense of their own full actuarial analysis, or who insure small numbers of the particular class of vehicle on an accommodation basis only.

[8] IAO proposed an effective date of July 1, 2017, for new and renewal business to be used by its subscribers.

Rate Level Changes

[9] IAO proposed to make changes to its current base rates that are not uniform by territory as well as to make changes to a number of its differentials. The proposed change represents an overall rate level increase of 9.6%, which is the same as IAO's indications.

[10] The changes by coverage follow the indications except for SEF#44 where no change is proposed despite the indication for a large decrease and All Perils where the proposed change reflects the proposed changes for Collision and Comprehensive.

[11] In considering the Company's Application, Board staff reviewed all aspects of the ratemaking procedure, including the following:

- Loss trends and the effects of reform;
- Loss development;
- Credibility standards, procedure and complement of credibility;
- Premium (rate group drift) trends;
- Expense provisions, including Unallocated Loss Adjustment Expenses;
- Experience period and weights;
- Premium to surplus leverage ratio; and
- Target and proposed Return on Equity ("ROE").

[12] Board staff advised that the only issue arising out of the review was loss trends.

Loss Trends

[13] With the release of the industry claims experience data through to December 2015, earlier this year, Oliver Wyman ("OW"), the Board's consulting actuary, was requested to develop assumptions for loss trends for private passenger vehicles. A report with OW trend selections based on June 2016 was not available during the review of the IAO Application.

[14] In developing its selections, OW examined trends for the industry loss costs, frequency and severity before making its selections. OW considered a number of observation periods including both 5 and 10 years of data when making its decisions.

After selecting past loss cost trends, OW selected future trends to match the selections for past trends.

[15] IAO, in selecting its loss trend assumptions, reviewed industry data in Nova Scotia from 2001 to 2015. The Company used a variety of analyses (e.g. compound annual trend, exponential regression, linear regression) over a variety of intervals (e.g. last 10, 7 and 5 years) to separately review frequency, severity and loss costs. IAO also considered the December 2015 data based OW trend report when making its selections. This was the most recent report available to them from the Board's website as they were producing the actuarial analysis included in the Application.

[16] A comparison of the IAO trend selections to those of OW selections indicates differences. IAO applied the past trend until October 1, 2014, and then used the future trend after that point. While OW split its selections for BI past trends into two, only the later was applied to the data that IAO used in its analysis.

[17] With the exception of three coverages, the IAO selections match the selections made by OW in its December 2015 based report. For Accident Benefits – Medical/Rehabilitation and Comprehensive, they are outside of a 1% range around the OW selections but within a 2% range. The IAO selections in this case would produce lower rates than would be the case with the OW selections. The Medical and Rehabilitation Costs is a part of the combined Accident Benefits total, and as a consequence it has affected the combined trend selection. This third trend selection difference is less than 1%.

[18] In the circumstances of this Application, Board staff recommend, and the Board agrees, to use the IAO selections when preparing indications which are to be the target against which to assess the proposed changes.

Comparison of Proposed Rates to Indications

[19] IAO proposed changes that matched its own indications for all coverages except for SEF #44 and All Perils.

[20] For All Perils, which provides the combined benefits of Collision and Comprehensive, IAO selected changes that reflected those in the underlying coverages, in order to maintain consistency. The Company did not produce separate All Perils indications.

[21] In prior filings, IAO explained that its decision to propose no change to SEF#44 rates, despite an indication for a large decrease, was based on the fact the SEF#44 loss data is too thin and volatile. IAO also indicated that the average street premium is much higher than indicated. To provide the proper perspective, the average IAO premium for SEF#44 is about \$7. The indicated decrease would bring this to \$4. This would compare to the industry average premium of approximately \$20. It would appear that lowering the IAO rate by the indicated amount would not be prudent in these circumstances.

[22] Because companies that use the IAO rates generally have a very small number of contracts, which presents a greater risk to the company due to the increased volatility of the experience, the use of the higher return on equity ("ROE") of 12%, instead of the 10% the Board has, in the past, forced some larger companies to use, is

reasonable. The proposal to not alter SEF#44 results in a slightly higher ROE (12.28%), which in these circumstances, is not material enough to warrant a change.

[23] The Board finds that the revised IAO proposal is just and reasonable and approves it.

Other Changes

Differentials or Relativities

[24] IAO proposes to change a number of its differentials or relativities; namely territory, class, driving record, deductible, and liability limit (both TPL and SEF#44). IAO provided the analysis of indicated values for each of these differentials/relativities and selected changes for all the differentials. These changes followed the indications, but in some cases the magnitude was capped so that it did not exceed $\pm 10\%$ of the current differential.

[25] All results had been reviewed by IAO for reasonableness and where there was an abnormal result (e.g. the relative magnitudes of two differentials reversed) changes were made to remove the reversal.

[26] Board staff stated that the analysis provided was reasonable and that IAO has adequately supported its proposed differentials/relativities.

[27] The Board approves the proposed changes to the differentials and relativities.

Direct Compensation Property Damage

[28] In prior applications, IAO developed indications for Third Party Liability as a combined coverage and then split the resultant indicated/proposed premium into its components (Bodily Injury, Property Damage-Tort and Direct Compensation Property Damage (“DCPD”)) based upon the methodology suggested by the Board for the simplified April 1, 2013, Reform filings.

[29] In this Application, IAO developed indicated changes for Bodily Injury and for Property Damage-Tort and DCPD Combined. This approach was used as the separate DCPD experience information is not yet available from General Insurance Statistical Agency (“GISA”).

[30] Board staff believes this approach for establishing the DCPD rates is appropriate in the circumstances and recommends approval of the use of this approach to determine DCPD rates for this Application.

[31] Once DCPD data becomes available from GISA, the Board expects IAO will provide an analysis of DCPD separately rather than using this combined approach.

Adoption of 2017 CLEAR Table

[32] As noted earlier, IAO conducted its analysis of indicated rates assuming the 2017 CLEAR table would be used. The coverages that use the CLEAR tables match the indications to determine the rates.

[33] The Application reflected rate group drift and has effective dates that are after February 1, 2017 (the date of the Board approval of the 2017 tables). As well, the revised profiles properly reflected the correct rate groups.

[34] The Board approves the use of the 2017 CLEAR table (AB Alberta and Atlantic Canada: Collision, DCPD and Comprehensive separated), as proposed.

IV FINDINGS

[35] The Board finds that the Application complies with the *Act and Regulations*, as well as the *Rate Filing Requirements*.

[36] The Board finds the IAO revised rates that match the Staff recommendations are just and reasonable, and the Board approves them.

[37] The Board approves the adoption of the 2017 CLEAR table, as filed.

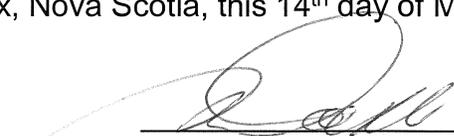
[38] The Board approves the proposed changes to the Company's differentials or relativities, as filed.

[39] The Application included full actuarial indications and the required territorial analysis; therefore, it qualifies to reset the mandatory filing date for PPV for IAO. The Board sets December 31, 2017, as the next mandatory filing deadline for these vehicles.

[40] The Board approves the effective date of July 1, 2017, for new and renewal business as proposed by IAO for its subscribers. A subscriber, if desired, may file and request an earlier effective date.

[41] An Order will issue accordingly.

DATED at Halifax, Nova Scotia, this 14th day of March, 2017.



Murray E. Doehler